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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

DOCKET FILE COPY ORIGINAL

In the Matter of

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CC Docket No. 96-45

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Federal-State Joint Board on

)

Universal Service

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EX PARTE MEETING - PROXY COSTS MODELS

ALTERNATIVE SUPPORT PROPOSAL

The **South Dakota Public Utilities Commission** ("SDPUC") does not support the alternative distribution proposal for high cost support that was developed by an Ad Hoc Staff Group and was presented to staff members of the Federal Communications Commission ("FCC") on January 15th and 16th 1998. The following is submitted to express and explain SDPUC's concerns:

1. Use of the embedded costs as a basis for receiving support will not provide support where it is needed most.

There are too many other factors related to the embedded such as the age of the plant and the rate of depreciation. Using embedded penalizes states with older plant and high depreciation rates.

Compare two states that are fairly comparable in population. When you look at density, Iowa has 50% of its lines in the four lowest density zones while Kansas has 35%. So Iowa is slightly more rural. Using the blended model Iowa would receive \$.63 more per line than Kansas, fairly comparable. Yet on the embedded basis Kansas receives \$2.99 per line support, while Iowa receives \$.21 cents per line.

The Act states that urban and rural areas are to have comparable service and rates. This will not happen if there is no support for upgrading service in rural

[REDACTED]

areas. By using the older depreciated plant as the basis for support the plan does not provide support to achieve the comparable rates and service required by the Act.

The models are designed to provide support for a set of services that has been defined as universal service. By using the embedded cost, that only include the loop cost, you do not provide sufficient support in the high cost areas to provide those universal services. Those states whose support is calculated using the model are provided support for digital switching and will have the capability to upgrade services to support the required services. A state that is provided support using the embedded cost does not have the cost of the switch considered for support.

If the problem is in the models, then the model should be fixed. The Joint Board is working on this problem and we should give the joint board and the parties the opportunity to correct the models and not substitute an embedded number that puts the issuance of support on a basis that is not comparable among states.

2. State-wide averaging does not provide sufficient support for companies with areas of extreme high cost.

When you use state-wide averaging you are continuing the implicit subsidy of rate averaging.

In states such as South Dakota where you have a large number of small companies, the proposal does not provide sufficient support to the small companies by including them in the state wide average.

We can't assure that the small companies will be held harmless and they will receive the same amount. We have some areas of USW serving area that have just as high cost as the small companies.

Under this proposal, the USW exchanges that have been sold and were not receiving funding before will not receive funds. Some of these exchanges had very old plant and the buyers were depending on universal service funding to assist in upgrading the plant.

3. Implementation

This plan would require the continuation of data collection of ILEC's costs for calculation of support based on embedded costs.

This requirement on the ILECs but not the CLECs would be anticompetitive.

The proposal will require calculating embedded cost and model cost. It would also require the continuation of Part 32 Accounting and Separations. It seems unlikely that in a competitive market that these requirements could be imposed on the ILECs in the future.

One of the reasons models were proposed was so that the funding would be competitively neutral and put CLECs and ILECs on an even basis in calculating support.. Providing support on the basis of embedded costs means CLECs would receive or not receive funds based on the incumbents costs. This is not competitively neutral.

Does not give support equitably.

Providing support calculated on either the model's costs, the embedded costs, or the current support received is not comparable. Support received based upon the model includes support for undepreciated total cost to provide the services defined as universal service. The support received based upon the embedded cost or the current support, receive support for only the depreciated loop cost.

04 states receive support based on the blended models
19 states receive support based on the embedded costs
20 receive support based on the amount received under the current USF
07 states receive no support
22 states receive more support than provided by the current fund.

In many cases **the results don't make sense.**

Under the models Louisiana would receive support of 65 m, under the embedded they would receive 126 m, under the current system they receive 46m. Louisiana's support would be the 65 m calculated by the models.

Iowa would receive 138 m under the models, nothing under the embedded, and 4 m under the hold harmless.

South Dakota would receive 93 m under the models, 4 m under the embedded, and 6 m under the hold harmless.

Why is there so much difference between the support calculated from the blended model, the embedded and what the state currently receives. Especially when you consider that the current cost is calculated on the same embedded cost.

**This proposal is detrimental to states with extremely high cost loops,
favors states with moderately statewide high cost loops.**

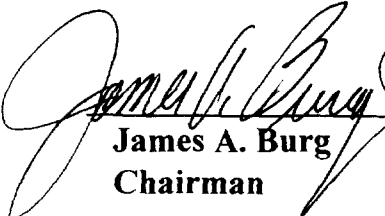
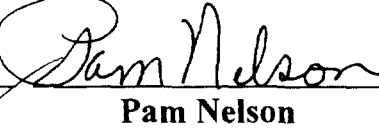

In the paper it says that states with a high proportion of access lines in the rural areas may also have a higher proportion of customers at risk from rate deaveraging. (pg 9, 3rd paragraph) The illustration used is Arkansas, Vermont and Maine. Both South Dakota and North Dakota have a much higher percentage of their lines in the lowest density zones. SD has 13%, and ND 15% while Maine has 2% and Vermont less than 1%. Yet ND's support will increase only \$.46 per line and SD will receive no increase at all. While Maine and Vermont will receive increases of \$3.41 and \$7.11 per line. How are ND and SD, these equally rural states, suppose to support deaveraging.

4. Does not meet the very goals set out in the paper

- a) Regarding **sufficiency** - The plan was designed to achieve a given bottom line and nothing says that using the lower of the embedded cost, the model's cost or the hold harmless is going to meet the sufficiency standard in the Act.
- b) **Competitively neutral** - distributing support on the basis of the incumbents cost is not competitively neutral.
- c) Will not meet the goal of **reasonable comparable rates** within a state or between states. Some states with very high cost areas will not receive sufficient support to maintain comparable rates.

The SDPUC respectfully requests that the FCC consider the positions stated in this filing.

Respectfully submitted by the South Dakota Public Utilities Commission this 19th day of February 1998.

		
James A. Burg Chairman	Pam Nelson Commissioner	Laska Schoenfelder Commissioner

CERTIFICATE OF SERVICE

I hereby certify that copies of the Ex Parte Meeting - Proxy Costs Models Alternative Support Proposal were served on the following by mailing the same to them by United States Post Office First Class Mail, postage thereon prepaid, at the address shown below on the 19th day of February, 1998.

See attached Exhibit A.

A handwritten signature in cursive script, appearing to read "Delaine Kolbo", is written over a horizontal line.

Delaine Kolbo
Legal Secretary
South Dakota Public Utilities Commission
500 East Capitol
Pierre, SD 57501

EXHIBIT A

HON. LASKA SCHOENFELDER
COMMISSIONER
SOUTH DAKOTA PUBLIC UTILITIES COMM.
500 EAST CAPITOL
PIERRE SD 57501-5070

LEGAL ADVISOR
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF COMMISSIONER POWELL
1919 M STREET NW ROOM 844
WASHINGTON DC 20554

HON. DAVID BAKER
COMMISSIONER
GEORGIA PUBLIC SERVICE COMMISSION
244 WASHINGTON STREET SW
ATLANTA GA 30334-5701

MARTHA S HOGERTY
MISSOURI OFFICE OF PUBLIC COUNCIL
PO BOX 7800
JEFFERSON CITY MO 65102

ROWLAND CURRY
TEXAS PUBLIC UTILITY COMMISSION
PO BOX 13326
AUSTIN TX 78701

SHERYL TODD
FCC - ACCOUNTING & AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8611
WASHINGTON DC 20554

IRENE FLANNERY
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8922
WASHINGTON DC 20554

SANDRA MAKEEFF
IOWA UTILITIES BOARD
LUCAS STATE OFFICE BUILDING
DES MOINES IA 50319

MARK LONG
FLORIDA PUBLIC UTILITY COMMISSION
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE FL 32299-0866

LORI KENYON
ALASKA PUBLIC UTILITIES COMMISSION
1016 WEST SIXTH AVENUE SUITE 400
ANCHORAGE AK 99501

CHARLES BOLLE
SOUTH DAKOTA PUBLIC UTILITIES COMM.
500 EAST CAPITOL
PIERRE SD 57501-5070

HON. JULIA JOHNSON
CHAIRMAN
FLORIDA PUBLIC SERVICE COMMISSION
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE FL 32399-0850

HON. H. RUSSELL FRISBY
COMMISSIONER
MARYLAND PUBLIC SERVICE COMMISSION
16TH FLOOR 6 PAUL STREET
BALTIMORE MD 21202-6806

DEONNE BRUNING
NEBRASKA PUBLIC SERVICE COMMISSION
PO BOX 94927
LINCOLN NE 68509-4927

JAMES CASSERLY
FEDERAL COMMUNICATIONS COMMISSION
COMMISSIONER NESS' OFFICE
1919 M STREET NW ROOM 832
WASHINGTON DC 20554

LISA BOEHLEY
FEDERAL COMMUNICATIONS COMMISSION
CCB, ACCOUNTING AND AUDITS DIVISION
2100 M STREET NW ROOM 8924
WASHINGTON DC 20554

BRIDGET DUFF
STATE STAFF CHAIR
FLORIDA PUBLIC SERVICE COMMISSION
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE FL 32399-0866

LISA GELB
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8601
WASHINGTON DC 20554

EMILY HOFFNAR
FCC - ACCOUNTING & AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8617
WASHINGTON DC 20554

PHILIP F MCCLELLAND
PENNSYLVANIA OFFICE OF
CONSUMER ADVOCATE
1425 STRAWBERRY SQUARE
HARRISBURG PA 17120

THOR NELSON
COLORADO OFFICE OF CONSUMER COUNSEL
1580 LOGAN STREET SUITE 610
DENVER CO 80203

PAMELA GALLANT
FEDERAL COMMUNICATIONS COMMISSION
CCB, ACCOUNTING AND AUDITS DIVISION
2100 M STREET NW ROOM 8912
WASHINGTON DC 20554

BRIAN ROBERTS
CALIFORNIA PUBLIC UTILITIES COMM.
505 VAN NESS AVENUE
SAN FRANCISCO CA 94102

TIANE SOMMER
GEORGIA PUBLIC SERVICE COMMISSION
244 WASHINGTON STREET SW
ATLANTA GA 30334-5701

ANN DEAN
MARYLAND PUBLIC SERVICE COMMISSION
16TH FLOOR 6 PAUL STREET
BALTIMORE MD 21202-6806

HON. WILLIAM E KENNARD
CHAIRMAN
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET NW ROOM 814
WASHINGTON DC 20554

HON. SUSAN NESS
COMMISSIONER
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET NW ROOM 832
WASHINGTON DC 20554

HON. GLORIA TRISTANI
COMMISSIONER
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET NW ROOM 826
WASHINGTON DC 20554

TIMOTHY PETERSON
DEPUTY DIVISION CHIEF
FCC - ACCOUNTING AUDITS DIVISION
2000 L STREET NW ROOM 812
WASHINGTON DC 20554

MARYANNE MCCORMICK
FEDERAL COMMUNICATIONS COMMISSION
CCB, ACCOUNTING AND AUDITS DIVISION
2100 M STREET NW ROOM 8619
WASHINGTON DC 20554

BARRY PAYNE
INDIANA OFFICE OF THE CONS. COUNSEL
100 NORTH SENATE AVENUE ROOM N501
INDIANAPOLIS IN 46204-2208

JAMES B RAMSAY
NATIONAL ASSOCIATION OF REGULATORY
UTILITY COMMISSIONERS
PO BOX 684
WASHINGTON DC 20044-0684

L. CHARLES KELLER
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8918
WASHINGTON DC 20554

DIANE LAW
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8920
WASHINGTON DC 20554

CHERYL LEANZA
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8905
WASHINGTON DC 20554

HON. MICHAEL K POWELL
COMMISSIONER
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET NW ROOM 844
WASHINGTON DC 20554

HON. HAROLD W FURCHTGOTT-ROSS
COMMISSIONER
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET NW ROOM 802
WASHINGTON DC 20554

THOMAS POWER
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF CHAIRMAN
1919 M STREET NW ROOM 814
WASHINGTON DC 20554

ROBERT LOEBE
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8914
WASHINGTON DC 20554

MARK NADEL
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8916
WASHINGTON DC 20554

KIMBERLY PARKER
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8609
WASHINGTON DC 20554

NATALIE WALES
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8405
WASHINGTON DC 20554

JOEL B SHIFMAN
MAINE PUBLIC UTILITIES COMMISSION
STATE HOUSE STATION #18
242 STATE STREET
AUGUSTA ME 04333

BRYAN CLOPTON
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8615
WASHINGTON DC 20554

RICHARD D SMITH
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8605
WASHINGTON DC 20554

LORI WRIGHT
FCC-CCB, ACCT. AND AUDITS DIVISION
UNIVERSAL SERVICE BRANCH
2100 M STREET NW ROOM 8603
WASHINGTON DC 20554

PETER BLUHM
SHELDON KATZ
VERMONT PUBLIC SERVICE BOARD
112 STATE STREET DRAWER 20
MONTPELIER VT 05620-2701